

SECURITY INFORMATION
CENTRAL INTELLIGENCE AGENCY

INFORMATION REPORT

REPORT NO. [REDACTED]

25X1A

CD NO.

FEB 2 1953

DATE DISTR. 12 Jan. 1952

25X1A

NO. OF PAGES 1

NO. OF ENCLS. 1 (35 pages)
(LISTED BELOW)

A

COUNTRY Czechoslovakia

SUBJECT Development and Present Status
of Czechoslovak Economy

B 2210

PLACE 25X1C
ACQUIRED [REDACTED]

THIS DOCUMENT HAS AN ENCLOSURE ATTACHED
DETACH

DATE OF
ACQUIRED [REDACTED]

25X1X

SUPPLEMENT TO
REPORT NO. [REDACTED]

[REDACTED] the development of the Czechoslovak
economy.

2. Your evaluation of this report would be appreciated. Please return by
23 February 1952.

25X1A

25X1A

25X1A

25X1A

ILLEGIB

EXPLO

B-02-0402

SECRET/CONTROL - U.S.

DISTRIBUTION

RR

~~SECRET~~
CONTROL U. S. OFFICIALS ONLY
SECURITY INFORMATION

~~THIS IS AN UNCLASSIFIED COPY~~
DO NOT DETACH

25X1A

The highly developed Czechoslovak industry represents the chief source of strength in the Soviet economic-political plan, and it ranks first among the other countries within the Soviet orbit. This Soviet plan ~~is~~ comprises all the countries who are members of the CEMA (Council of Economic Mutual Assistance). Within it, Czechoslovak industry has a manifold significance as it supplements the Soviet industrial production in the fundamentals of heavy and war industry; ^{produces} special machines and parts for Soviet domestic production; component parts for war production; ^{other} total items in heavy as well as light industry. In the latter category are shoes, ^{clothing} confections, textiles, leather products and products of canning factories.

The Czechoslovak industry is assisting materially in the mechanization of the other countries belonging to CEMA; their armament program; and light industry which ~~in~~ the other countries has ^{under} been ^{most} developed or was existent to a minimal degree.

Czechoslovakia is also carrying a heavy industrial program of her own, and is extending even further the existing industrial plants and undertaking full industrialization of Slovakia. This entire program is implemented from her own resources.

Unfortunately this load does not mean any economic progress or advantage for the country itself; it is actually injurious and causing serious disruptions in the economic as well as financial setup.

The development of ~~the~~ Czechoslovak industry can be divided into three principal periods. The first stage represents the period of actual expansion in which production was aimed ^{forward} for the best interests and prosperity of the country. The second stage is represented by a partial restriction of this expansion due to the increasing demands of the USSR, not only for itself but for the other countries within its orbit. At this time by introducing new methods and reorganization, it was still possible to meet these demands and maintain economic stability. The third stage, which represents the present time, ~~is~~ characterized by a complete destruction and disruption of the native economy and a one-sided orientation of the total industry for the benefit of the Soviets, which has resulted in the present chaotic situation and lowered living standards.

CONTROL U. S. OFFICIALS ONLY

SECRET

CONTROL U. S. OFFICIALS ONLY

These periods can be described as follows:

1. 1945-1948 - Two-Year Plan period which represented a healthy expansion, and though ~~it was~~ geared to USSR needs, domestic ~~needs~~ consumption as well as world markets were taken into consideration.
2. 1949-1950 First two years of the Five-Year Plan which represented full use of the increased productivity and experience gained during the Two-Year Plan. During this time some consideration to domestic economic welfare was given, even though new and increasing demands by the USSR and its satellites were straining some sectors of the economy.
3. 1950 - 1951 Constantly increasing demands of the Soviets, partly resulting from the change in the Soviet basic plan, and partly due to the unreasonable stepping-up of the entire program, ~~has~~ caused complete cessation in some branches of industry, such as ~~the~~ light industry, and a strictly one-sided trade so far as Czechoslovakia is concerned. This has naturally brought about a chaotic disruption of the domestic economy.

The foregoing is an unhappy picture of the situation from the Czechoslovak viewpoint.

✓ From the viewpoint of the USSR, the Czechoslovak industrial potential has been raised to a maximum, and has been instrumental in fulfilling the total plan of the USSR and CEMA. As a matter of record Czechoslovak industrial productivity has now surpassed in volume by many percent the highest prewar level and reached a point where the country ranks among some of the largest industrial European states. In spite of this straining of its economy to the utmost, it ~~has not added to the country's wellbeing~~ but quite the opposite.

✓ So that a true evaluation be made of the Czechoslovak nation's position and contribution to the total USSR and CEMA program, a synopsis of the periods listed above is necessary.

In the first period (Two-Year Plan) a sound foundation was laid for today's high productivity and maximum exploitation of Czechoslovakia. However, at this time living standards were higher than ever, and a favorable public opinion towards the new regime (KSC) was created. Non-communists, though not actually in favor of the regime, were lulled into inactivity by the initial successes of the program; hence actual opposition was paralyzed as ~~was~~ the passive resistance of the ~~wavering~~ middle groups, who were neither Communists nor Anti-Communists.

SECRET

SECRET

The main object of the Two-Year Plan was to achieve within two years or less a full reconversion to peacetime production and to increase the prewar industrial productivity by at least ten percent. This was done, and economic stability with a firm foundation for future development followed as a matter of course.

It seems that the Two-Year Plan and its immediate results were superficially regarded by the western critics, and its full import and significance were underestimated. This erroneous concept is carried over and gives basis to many unrealistic views of the present day ~~economic~~ ^{economic and political} situation in Czechoslovakia; also to serious underestimates of the present value of its considerable contribution to the USSR economy and the war potential of the entire Soviet bloc (CEMA group).

It should be clearly understood that without the successful Two-Year Plan the truly enormous industrial productivity of the country could not have been accomplished. There is no question here of economic stability within the country itself; it has been grossly exploited by the USSR; its industry overexpanded only to meet the ever increasing demands of the Soviet and CEMA program. The Five-Year Plan was based on the initial success and was a natural ~~con-~~ sequence ^{of that success}.

At this time some basic conditions and prime causes should be considered. The advantages of ^a ~~the~~ planned economy over a capitalist ~~one~~ consist of a total lack of competition; ^{there is} no danger of surpluses since production is set in accordance with previously established consumption needs. Then too, enormous investments and ^{construction projects} ~~structures~~ are made possible.

The original Five-Year Plan was intended to ^{cover} ~~include~~ the years 1949 - 1953. The first year passed calmly and accomplishment was in the main satisfactory. It was noted that in some sectors the goals were set too high, not enough time being allotted to the purely preparatory phase of certain activities. (In these provisions must be taken into consideration the problem of man-power, since the Plan depended on more people being available ~~in~~ for work in heavy industry, ~~and~~ mining, metallurgical plants, etc.

Basic, Imported raw materials were more difficult to obtain and this ^{ed} ~~was~~ causing various stoppages in actual productivity.

Then ~~a~~ considerably greater difficulties were caused by the political

SECRET

SECRET

CONTROL U. S. OFFICIALS ONLY

25X1A

people ^{positive} responsible in the overall organization, ^{when they} ~~to their~~ exchanged ~~of~~ cadres, especially in management and most responsible positions. Political appointees without the necessary technical skills ~~were~~ replaced experienced people, who in turn were placed in subordinate positions, or worse yet into other branches.

This policy alone, caused great losses; lengthening of time processes required to complete manufacture; in poor or lesser quality of articles manufactured; ^{and} increased production costs and lowering of working morale.

These obstructions were not irremovable and did not represent a serious menace to the ultimate success of the Plan if ^{its} further progress had been conducted according to the original idea, and if ^{eventually} the original ^{Plan} could have been amended to meet the new and increasing demands.

The Five-Year Plan was formulated under the new political conditions, i. e. since February 1948. Therefore these radical changes were reflected in both the structure and the content of this new, future, economic, long-term plan.

It called for the completion of the Socialization of Czechoslovakia and ^{the} discontinuance of private enterprise. A small insignificant portion of private enterprise was left undisturbed, as long as it did not influence the economic political state administration, nor have any effect on cooperation with ^{the} USSR and the orientation of the Czechoslovak program into the total Soviet plan. Even within the original framework of the Plan, ^{for} most consideration was given to the needs of the USSR and the other countries within the Soviet orbit.

Though the USSR requirements were quite large, their total extent at this time could still be incorporated into the economic plan without substantially disrupting the national economic situation. However as a natural ^{con-} sequence shipments to the West were greatly reduced. Compensation for this loss of trade and imports ^{was} to be furnished by the USSR in the form of increased shipments and financial aid, principally for purchases made abroad; ^{be paid for by} said purchases would also ~~dispose of~~ Soviet gold.

The above agreement was reached at the beginning of 1949 at Moscow, when a special governmental delegation from Czechoslovakia, headed by Zapotocky, was there. This delegation consisted of Ministers Gregor, Clementis, Dolansky,

SECRETMinister. ^(Incidentally this was his only journey during his term of office.) 25X1A

Preliminary discussions of this agreement were made directly between Stalin and Gottwald in Moscow in September 1948, at which time all economic and political questions were settled between them. Gottwald then extended his trip and spent some time in the Crimea. The purpose, at this time was to assure the USSR of certain basic requirements pending the development of ^{Czechoslovak} ~~their own~~ industry.

✓ Heavier impacts with more serious consequences to the Czechoslovak economy were caused by the establishment of GEMA and the increased demands put into effect, which were, in accordance with the Soviet-promulgated plan.

✓ The chief requirement of the plan was to furnish the other members of the GEMA with basic necessities for building up their own, new, industrial economy, and further, supplying them with the products needed for current consumption. These latter products of Czechoslovakia had been directed toward the West and were thus the principal source of foreign exchange for Czechoslovakia.

In return ~~for~~ for the basic products Czechoslovakia was to furnish members of the GEMA, it was to receive from the other members a supply of those raw materials, of a secondary nature, which heretofore had been purchased more advantageously from the West. It was planned originally that the differences in exchange would be covered and guaranteed by the USSR. The difference was to be made up by the USSR in gold.

This change (direction of products to east from the west), however, required modifications in the original Five Year Plan, none of which improved the nation's internal economy. It would have been possible to find a practical solution to this enigma, provided, that the USSR would have carried out its part of the bargain and furnished both the gold and raw materials as per its guarantee. Great gaps in this, however, brought along a train of difficulties, which, added to the ones mentioned earlier, seriously hampered and endangered the orderly processes of industry so that chaos resulted.

More changes and reorganizations became necessary. To the public these changes were made manifest at the sessions of the Central Committee of KSC in February 1950, when announcements were made about certain changes in the basic plan being inevitable, due to closer cooperation with the basic Soviet line, and also as a result of national developments in building up a Socialist

State, since the original decision made at the 9th ^{Conference} ~~Session~~ ^{May 1949} ~~May 1949~~ ^{U.S. OFFICIALS ONLY}

SECRET

- 5 - CONTROL

(5)

SECRET

CONTROL U. S. OFFICIALS ONLY

25X1A

Even this pronouncement mentioned the urgency for fulfillment of the Five-Year Plan and the necessity for widening its basic requirements and the need for especially speedy accomplishments in the fields of heavy industry and heavy machine building. Thus, officially, it was made very clear that the principal reason for ^{the} reorientation of the Plan was the urgent necessity of further aid in building up the economies of the Soviet bloc for the defense of "peace".

These very first changes, which boded ill for the internal Czechoslovak economy because the entire productivity of the country was geared to the USSR ^{to rule the world} world-ruling ambitions, brought about disputes and disagreements in political circles, not only within the State apparatus but in the central party apparatus as well.

These disputes led to direct conflict with Moscow; thus in the fall of 1949, ^{Deputy} Minister of Foreign Trade, E. Loebl, was arrested and charged with anti-state activities; later ^{came} the removal and arrest of J. Planer, director of foreign section of the Central Secretariat, ^{the} removal and arrest of J. Reiman, chairman of the Office of the Prime Minister, and others ~~were~~ directly as the result of Moscow orders. At about this time there was some publicity given to new evidences of nationalist-anti-soviet and Titoist elements found in Czechoslovakia.

In spite of all the difficulties and dissensions enumerated above, due to the soundness of the Two-Year Plan, the fact that there was a backlog of supplies within the country, the people remained optimistic that these obstacles insofar as internal shortages were concerned, were of a temporary nature, and that the external difficulties, such as ^{the} ~~lack~~ of USSR ^{not living} ~~to live~~ up to its guarantees, would also be erased with time.

Such ¹⁹⁵¹ was the general feeling up to the beginning of this year, when a sudden reversal of the general Soviet line set up a different line of thought. Its change of policy must have been formulated last year, but in line with the usual Soviet strategy, no one, not even those principally concerned with carrying out its policies, seemed to have had warning that it was coming. Therefore, no one was able to formulate any opposition or make any preparations to meet this new aspect of the Soviet line. (6)

SECRET CONTROL U. S. OFFICIALS ONLY

SECRET

CONTROL U. S. OFFICIALS ONLY

The entire Soviet program at the present time is based on the possibility of war. Naturally the program does not stop with the USSR but includes all the other countries comprising the GEMA group.

25X1A

It is impossible to set one definite date when this radical ~~change~~ change took place, inasmuch as all of the provisions of the Five-Year Plan (such as building of new industries, increasing of industrial productivity, the stress on heavy industry, heavy machine building, industrializing of backward areas, etc.) were just as useful for the furtherance of military aims, as they were towards achieving the peaceful goals, as originally promulgated.

It seems that the USSR considers only one country ~~slowly~~ ^{as} becoming almost ~~the equality~~ of a partner, and that is the People's Republic of China.

At the present time, the Soviet line has abruptly stopped any further development of industries, or building ^{of} new ones, but is stepping up demands for continually increased production of the existent plants.

(7)

SECRET CONTROL U. S. OFFICIALS ONLY

77

is, then, is the third and last stage in the development of the Czechoslovak

order to understand this stage more closely it is necessary to point out

SECRET

CONTROL U. S. OFFICIALS ONLY

25X1A

The changes and the new, increased demands were not presented to Czechoslovakia all at once, but rather gradually. Only the final large section was presented suddenly, that section which includes almost the entire industrial production of Czechoslovakia. Originally Czechoslovakia received only demands for increased production and deliveries to the USSR, and these were on a small scale. Even these demands, however, meant a change in the original economic and production plan, and met with a large number of cases of misunderstanding and disagreement which were even overt, at times.

In this connection it should be understood that in many cases those functionaries who expressed themselves against specific measures, and criticized the general line of the Party leadership, were not guilty of anti-Soviet or anti-Communist sympathies, but rather did not understand the reasons for these changes, and saw in them only a threat to the economic interests of Czechoslovakia. The Party leadership, insofar as it was informed of the real reasons for these changes - and it must be supposed that at least the leading Party functionaries were informed and instructed from Moscow - was not always able to explain in detail the reasons for the changes of policy. For this reason the Party leadership has to suppress the opposition, and to accuse them of insufficient political maturity, etc. In many cases the Party leadership welcomed the opportunity to rid the Party of inconveniently active and independent functionaries, in the process of suppressing Party democracy. This is true, both of the purge which Slansky initiated and of the final removal of Slansky himself. This was discussed in detail in the report of Slansky.

The USSR had an excellent chance to evaluate the potential of Czechoslovak industry and to determine the final potential of that industry after a period of development; this was particularly true after 1949, when special Soviet missions began to come to Czechoslovakia. (A separate report has been made on these missions.) Over a period of time these missions could determine the ability of the Czechoslovak economy to fulfill maximum demands, providing certain measures were taken. On the basis of their reports Moscow prepared a plan for Czechoslovak industry within the framework of the new Soviet economic and political strategy; this plan was presented to Czechoslovakia when completed. It may be said that

- 9 -

SECRET

CONTROL U. S. OFFICIALS ONLY

SECRET

25X1A

this is the final draft of the plan, because it involves the actual maximum possible production from Czechoslovakia, and no further increase can be made in the near future without a further expansion of the bases of production and modernizing existing ones.

This final demand, which requires fundamental changes in the original Five-Year Plan, was presented ^(in detail) to the public at the February, 1951, meeting of the Central Committee of the KSC by Dolansky, and was explained politically by President Gottwald. The plan was presented very cleverly, so that by merely reading it over and analyzing it according to existing plans, it was impossible to see that the overall plan would have to be changed, and that the effect on the Czechoslovak economy would be enormous, without also knowing the background of the new demand. The purpose of this report is not to analyze Dolansky's polemic speech. But in spite of this it is necessary to point to several basic facts which may help in understanding these developments. In the very introduction of his extensive report Dolansky says that the changes in the Plan, which he calls only an increased and accelerated Five-Year Plan, are in the interest of securing the strength of the countries of the "peace camp". Dolansky had to begin in this manner because the analysis of the changes in the rest of the speech cannot be easily understood to be in the interests of Czechoslovak prosperity and stability.

An important point in his report is the statement that "industrial production in Czechoslovakia is 50 percent higher than under capitalism, and heavy machine building, precision machine building, and power ^{production} in 1950 reached double the ^{highest} output achieved in Czechoslovakia under capitalism." This is presented not only to confirm the above explanation of the causes of these changes, but also to give a concrete example for the real evaluation of the capacities of Czechoslovak industry, as opposed to improper evaluations; and to give a correct overall picture, as opposed to tendentious and incorrect information.

In other parts of his report, which is divided according to individual branches of industry, Dolansky shows clearly the extent to which the USSR is taking Czechoslovak industrial production, ~~and~~ the industries in which this is occurring, and the effect of Czechoslovak activity on the other countries of the Soviet sphere. This will be discussed in detail in another report dealing with ~~the~~ the significance of Czechoslovak industry for the USSR.

SECRET

CONTROL U. S. OFFICIALS ONLY

SECRET

CONTROL U. S. OFFICIALS ONLY

25X1A

Another proof of the above is in Dolansky's report on Czechoslovak foreign trade, in which he said that in 1950 Czechoslovak trade with the People's Democracies and the USSR reached 54 percent of total trade, while the exports of heavy and precision~~work~~ machine building and metallurgy from Czechoslovak to these countries reached 73 percent of total production. At the same time imports of basic raw materials from these countries have increased by only 10 percent. This is directly connected with the necessity to develop new domestic sources of the basic raw materials, even though it is not financially profitable; included here ^{are} also the increased collections of scrap iron, other metals, and other raw materials

Another important point in Dolansky's report is the question of the production and distribution of electric power within Czechoslovakia and for export. This will be discussed independently in a further report.

Dolansky's report gives the impression of an overall expansion of the Five-Year Plan and a general increase in the output of Czechoslovak industry and economy. In fact this overall increase is only apparent, and in reality will occur only in certain sectors, where a sharp rise in output will take place. In a number of successful sectors, which are important to Czechoslovakia's economy, there will be a significant drop, which is the necessary result of the uneven distribution of manpower and the reorientation of the economy. There are two possibilities in this case. The first is that the new Five-Year Plan is in no way fundamentally different from the original plan, since some sectors of the original plan have not been touched, and in others the report does not go into detail. The other possibility is that in the so-called useful industrial sectors, which includes such things as civilian construction, it is calculated that the plan will not be fulfilled, and that in order to cover this up measures will be taken later against the "responsible functionaries". This corresponds completely not only to the mentality but also to the requirements of the planning system, in which for political reasons it is impossible to backtrack under difficulties in sectors where 100 percent plan fulfillment is politically required. This is particularly true in the case of the civilian sector, ^{has been and} which will be subject to further strains.

SECRET CONTROL U. S. OFFICIALS ONLY

SECRET**CONTROL U. S. OFFICIALS ONLY**

25X1A

There exists, however, a real possibility of further increasing the productivity and capacity of those sectors of Czechoslovak industry on which the principal emphasis is being placed, without the necessity of expanding parallel production. The technique of this productivity increase, the so-called simple, or "dry" method, was worked out first by Soviet technical missions and adapted to the working methods of the Soviet system. The system consists principally in further utilizing the existing means of production by introducing second and third shifts ; this disturbs the continuity of production the least and will make possible a considerable increase in overall production. Another of the principal methods by which the Soviet system has been adapted is to increased specialization in production, excluding less important products from planned production, and transferring to serial production. These are the two main factors which may really help to ^{accomplish} ~~overcome~~ the new tasks and fulfill the new demands.

~~Both of these methods have been applied to the production of the main products.~~ Steps have already been taken to apply these new methods, both in the introduction of second and third shifts and in the rejection from production of less important products. The ^{problem} of further shifts is of course connected with the problem of finding more manpower. This leads to the drastic and unpopular step of drafting labor, and transferring manpower from less important and administrative occupations to basic production. In its original phase this program involved the replacement of male ^{by female} workers in less important activities, ~~with women~~. This has achieved considerable ^{success}, and the majority of industrial enterprises of the main basic industries are using two, and some three, shifts. By 1 November the first phase of this transfer and recruitment of new manpower is to be completed. Even if the recruitment of unskilled and insufficiently educated manpower is unable to keep pace with the rise in the number of workers employed and with overall productivity, even this measure in its first phase has increased production and gives every hope of further increasing it. Of course this means a net economic loss for Czechoslovakia, not only from the financial standpoint, but from the structural-economic point of view, and also socially and morally. In addition it means a general drop in working morale and a worsening of the general atmosphere, particularly when the living standard is falling and the difficulties of

- 12 -

SECRET**CONTROL U. S. OFFICIALS ONLY**

SECRET**CONTROL U. S. OFFICIALS ONLY**

25X1A

life are increasing. The importance of the new demands of the Soviet program appears precisely here, where the accelerated fulfillment of the plan is necessary without regard to the unhealthy phenomena which accompany it.

The transition to the Soviet system has had its significance in the overall industrial economy of the country, and in its internal economic, financial, and administrative organization. One of the results of this transition has been the abandonment of the previous organization of the economy in those sectors affected; the general, regional, and enterprise managements have been abolished, and the entire administrative system has been reorganized according to the Soviet pattern, the so-called "Glavkovy" ^(main administrative) ~~[unidentified]~~ system. The new system consists of substituting for the general managements special ministries, which have specialized tasks. In the face of the further development of and the new demands on the main sectors of Czechoslovak industry the former administrative system was no longer tenable, and became a hindrance to the production process. The general managements, which were under the Ministries of Heavy and Light Industry, did not have sufficient authority, and in all basic and important decisions were subordinate to the ministries. This led to an administrative and functional duality, which made operation much more difficult, and finally made of the general managements an auxiliary and supplementary administrative complement of the ministries instead of a real executive organ. This situation was then transferred to the lower components of administration which were supposed to be direct organizational and production agents. The Ministries of Light and Heavy Industry, divided into individual sectors under the Deputy Ministers, were originally to be only supervisory and control organs over the activities of the general managements and the enterprises in the various sectors; in fact, however, they took over ^{full} ~~formal~~ authority. Responsibility, however, was left with the general managements, which led to an untenable and completely inflexible situation, filled with internal disputes, particularly when, later, the ^{enormous} independent national enterprises, such as the Czechoslovak Construction Plants, were formed; these were so large that they could no longer be handled by the general managements. The present "Glavkovy" system, therefore, consists in the fact that the supreme agency of the entire organization is the individual ministry concerned. Within these ministries there is another division into

SECRET**CONTROL U. S. OFFICIALS ONLY**

SECRET

two principal sectors, the organizational section, including financial, , administrative, and planning matters, and the production section. This means that all the present economic ministries, both the new ones and those which had already been in existence, are really nothing but general managements, so that each large national enterprise is under its own ministry, or rather under a deputy minister who may have several more enterprises within his jurisdiction. In this manner the former duality is to be done away with and the number of nonproductive administrative workers is to be sharply reduced. The reason this system was not introduced in Czechoslovakia until now, although it was decided on in 1949, was the complexity of the Czechoslovak economic system.

At the same time that the transition was made to the "Glavkovy" system the existing, widespread system of enterprise management began to be dismantled. This system, known as SPH (Socialisticke Podnikove Hospodarstvi - Socialist Enterprise Economy), was basically only an improved Bata system. During the period when Dr Holy, the former general manager of SVIT and later Deputy Minister of Industry was in office, this system was ^(to be) adopted on a nation-wide basis, and not only the national enterprises, but even certain offices, were to be run on the basis of it. The system consisted in dividing each enterprise into so-called centers which were to be managed separately and, what is more, had to show a financial profit. Each center had its own budget and plan; if the plan was overfulfilled the employees were to receive a bonus, while underfulfillment meant deductions from the employees' pay. This system actually worked in Bata, and does so today in SVIT, but when it was introduced into enterprises making semifinished products, or those not producing goods at all, it led to ridiculous paradoxes. In addition the system required a considerable increase in administration, and each center was to have its own accountant. But the decisive factor was that the government tried, at all cost, to prevent the transition to the bonus system, in which the employees were to receive extra pay when the plan was overfulfilled. The system was therefore called unsocialist, and Dr Holy was accused of irregularities in his activities in Zlin, primarily in the period after May, 1945. (The fact is that Holy did behave as a dictator, and forced his system and his methods through in all fields.) At present Dr Holy, who was arrested for a couple of days, is working building highways near Prague, and his system has been abolished and replaced by another, Soviet system.

SECRET**CONTROL U. S. OFFICIALS ONLY**

SECRET**CONTROL U. S. OFFICIALS ONLY**

25X1A

Another important change which is connected with the intensification of war preparations is the fact that, beginning in the spring of 1950, the Czechoslovak army has been taking over installations, primarily industrial enterprises which make war material. This is done under a law which Cepicka promulgated. In addition the army has obtained influence in a number of other enterprises which are indirectly engaged in supplying the army. In these enterprises the position of military experts is similar to that of the Soviet missions in other plants. The law giving almost unlimited authority not only to the army but also to the SNB was proposed together by Cepicka and Kopriva, and has had an enormous effect on the entire economic life of Czechoslovakia. At the same time the army began to build up large strategic reserves of goods, fuels, and other materials, and their daily consumption of these materials increased enormously as a result of new orders which Cepicka ^{gave out} ~~ordered~~. At present the daily ration of food for the Czechoslovak army is greater than British soldiers received during the war, computed in calorie value. The army also has priority in ordering almost all articles. Thus for example all automobile repairing is done either by the national enterprise Autorenova, or by the communal enterprises. Almost all the branches of Autorenova have been taken over to work exclusively for the army; while the communal enterprises repair primarily automobiles for the national enterprises and private automobiles must wait until time is available. Of even greater importance is the fact that all repair parts, as well as all new cars, are under the control of Autorenova, and are thus reserved for the army. A national enterprise may obtain a part necessary to keep an automobile running only on special order, while a private owner receives no parts.

These efforts by the army have had a very important influence on the overall lowering of the living standard; it has also affected the supply situation, ~~and by the transfer of the army in the organization of production.~~ This is also part of the gradual transition of the entire country to the Soviet system. Similarly to the situation in the USSR the Czechoslovak army is today becoming an independent unit, a sort of state-within-a-state; it has the broadest authority, and may interfere into the economy of the country, which in turn must adapt itself to meet the army's needs. The Czechoslovak military program is of course a part of the overall Soviet program, just as in the other satellite

SECRET**CONTROL U. S. OFFICIALS ONLY**

SECRET

CONTROL U. S. OFFICIALS ONLY

25X1A

states. This new position of the army has been unfavorable for Czechoslovakia for both internal and external reasons. The external reasons are that the same situation has prevailed in the other satellites, and the same results have been noted on the economies of those countries. This has meant that those countries have had to restrict their exports, including those to Czechoslovakia, and including exports of goods which at present are very important for Czechoslovakia, such as food and other materials necessary to keep Czechoslovakia on an even economic keel. This situation has affected, for example, deliveries of meat from Poland and Hungary, and of fat and other products from the other People's Democracies. This sort of thing is inevitable under common planning by the Soviet system, since all of the People's Democracies have become a sort of pool of materials, and an economic difficulty in one country necessarily has its effect on the internal situation in the other countries of the sphere. The same thing occurs in the case of nonfulfillment of plans in one country.

✓ The overall Soviet economic plan and the overall plan of the CEMA are closely connected, are complementary, and both are war plans. In these plans Czechoslovakia, because of its industrial development and its possibilities for expansion, has a leading position. Czechoslovakia thus takes second place to the USSR, and only after Czechoslovakia do the other People's Democracies come, led by the German Democratic Republic, since, after Czechoslovakia, this is the second most highly industrialized country of the Soviet sphere. China has a special position in the Soviet sphere. A special report will be made on China and on the order of importance of the individual countries of the Soviet sphere; this is necessary since each country is considered differently from different standpoints, and neither the importance, nor the importance attributed to each country by the USSR, is the same in all ² respects.

The economic aspect of Czechoslovakia, that is to say the heavy and war industry of that country, is today of the greatest importance for the Soviet Union, and it may even be said that up to now has been of greater significance than the direct military interest in Czechoslovakia. In this, of course, one must be very careful, and consider a large number of factors, such as the priority question of formation of reserves of all war material, the armament and material capabilities of the various armies, the political reliability of the army, and its fighting mo-

SECRET

CONTROL U. S. OFFICIALS ONLY

SECRET

CONTROL U. S. OFFICIALS ONLY

rale. In this respect Czechoslovakia today occupies first place as a country which is an important supplement to actual ~~Soviet~~ production in the Soviet plan, and a key agent in the economic and military plans of the CEMA. 25X1A

Of first importance here is the extent of so-called aid from the USSR. In the case of Czechoslovakia this is as significant as it is problematical, and takes two main directions. These are technical, and economic, aid.

The USSR gives technical aid to Czechoslovakia in several ways. These are primarily the so-called technical Soviet missions, which have been discussed in another report; then information^{on} and the introduction of Soviet production methods into practice; and finally working directly according to Soviet production plans. In this latter field the exchange of technicians in close cooperation is actually accomplished. The aid given by the Soviet technical missions should be pointed out in connection with the duality of their activity; to a small extent it consists of factual, technical aid in special production, such as in smelting Soviet ores in the metallurgy industry. To a greater extent, however, it consists of controlling production, in seeking ways to increase production, and finally, in actually copying Czechoslovak production methods and Czechoslovak patents. In a number of cases this led to difficulties between the ^{Soviet and} Czechoslovak technicians, such as in the Skoda Works in Plzen, and in the Zbrojovka-Brno. This played a role in the Sling affair, since he took the side of the Czechoslovaks in one or more of these arguments, when they refused to hand over patents to the Soviets. The information supplied by the Soviets, and the Soviet production methods, are not only a political propaganda item, but a real factor in production. These are ^{not} however new, perfected, and superior working methods which the Soviets supply, since in the majority of cases the Soviets use older methods than the Czechoslovaks, but the Soviets supply rather techniques for better and rational utilization of old machinery, old material, and substitute material, particularly in place of rare metals. Examples are Bykov's high-speed cutting system, and Lydia Korabelnik's techniques. In this connection Soviet production is perfectly organized, and is able to make savings at the cost of relatively little quality drop, and they are able to get maximum use from old and substandard machinery and tools and avoid great disruptions in production. The work that is done according to Soviet production plans is primarily that work done directly on Soviet order.

- 17 -

SECRET

CONTROL U. S. OFFICIALS ONLY

SECRET

CONTROL U. S. OFFICIALS ONLY

In these cases it is in the interests of the Soviets to aid this production, 25X1A
 (Czechoslovak
 and for this reason technicians have been trained in some cases in the USSR.

The economic aid given by the Soviet Union may be viewed in two ways. It is completely false to say that the USSR does not really give economic aid to Czechoslovakia, but it is quite a problem to determine the price of that aid.

The main types of industrial aid are iron ore, some rare metals, special machinery, particularly for heavy industry, hides, textile raw materials, etc. Only certain examples will be presented which seem to be the most outstanding; if desired, more detailed examples can be given. The iron ore which the USSR sends has a dual purpose: it is on the one hand to serve Czechoslovakia's own production (which is of course in line with Soviet plans and in the Soviets' interest), and on the other hand to serve Czechoslovak production which is directly for the Soviet Union. There are considerable difficulties in this connection, however, since Czechoslovak blast furnaces are designed to process other types of ores, particularly Swedish iron ores, and when Soviet ores are used, up to 60 or 70 percent of the ingots produced must be rejected from further processing. The Soviet technicians have been trying for a long time to remove these difficulties, but without any particular success. The same intentions are visible in Soviet deliveries of other basic raw materials, particularly nonferrous metals, as well as in deliveries of machines. In all these cases priority is automatically given to production which is for the USSR.

Unforeseen difficulties occurred last ¹⁹⁵⁰ year in the deliveries of goods from the USSR, and the volume of these shipments was considerably reduced. As a result at the end of last year Czechoslovakia could no longer maintain the level of deliveries of goods to the USSR. This situation naturally aroused the displeasure of the Soviets, and a new long-term agreement was signed with the USSR, which meant that Soviet deliveries were to be resumed in proportion to Soviet demands. In the case of other raw materials, such as leather, textile raw materials, etc., the larger part of these are processed for reexport to the USSR and only a small part remains in Czechoslovakia, where even it is used primarily for production according to the overall plan and not in the interests of Czechoslovakia. Thus it happens that the USSR delivers Czechoslovak shoes and textiles to Poland within the Soviet-Polish trade agreement.

- 18 -

SECRET

CONTROL U. S. OFFICIALS ONLY

SECRET CONTROL U. S. OFFICIALS ONLY

The Soviet Union gives actual aid to Czechoslovakia in the form of food, particularly grain, flour, fodder, etc. Actually, the propaganda that is directed at these deliveries is mistaken, and most people react to it in the ~~the~~ opposite way from what was intended, since this aid to Czechoslovakia is actually carried out, and the prices for basic foods are generally lower than current prices on the world market. The questionable feature of this lies only in the general picture, in that it involves cooperation with the Soviet sphere and other conditions on the deliveries. But the price on the materials delivered, and their quantity and quality, are not to be questioned. The USSR has today the capacity, if needed, to cover all of Czechoslovakia's basic food requirements, and it is incorrect to underestimate this capacity. In this manner it would be possible, for example, to solve the most pressing question of today in Czechoslovakia, and at the same time establish a basis for increasing industrial production. The largest reserve today of manpower in Czechoslovakia is in agriculture, which, however, itself is short of manpower, since it has its own high production goals. If, however, the USSR, perhaps together with the CEMA, could assure Czechoslovakia supplies of food, so that agriculture would cease to be such an important economic component of Czechoslovak life, it would be possible to solve the problem of the shortage of industrial manpower overnight. This decision has not yet been made, however. The main reason for this is the awkwardness of the Soviet planning and organizational system in the face of such a profound and basic change, and also the fact that the Soviets have no desire to assume ^{such a great} responsibility for another country. Also involved in this are political considerations of the unpopularity of such a step and the reaction which this would surely cause on a ^{wide} scale. Still another reason is that this would make possible closer relations between the individual satellite states, which would possibly weaken the feeling of subordination to the USSR, a development which the USSR is trying at all cost to prevent. In this connection it is well known that the USSR is strongly against any thought of federation or of closer relations among the satellite states without the USSR having a leading role in such negotiations. Examples of this are the fate of Dimitrov's suggestion of the formation of a Macedonian federation, and the Soviet rejection of the Federation of Danube states.

SECRET

SECRET**CONTROL U. S. OFFICIALS ONLY**

Soviet aid may be divided into two main groups: the first, deliveries within the framework of the bilateral, long-term commercial agreement; the second, independent deliveries, those made directly according to separate agreements within the framework of the Soviet plan. 25X1A

The deliveries of Czechoslovak goods to the other countries of the Soviet sphere, which are also sent to the account of the USSR, are purposely omitted. They will be discussed in a separate chapter.

The first category, of deliveries within the framework of the bilateral Czechoslovak-Soviet agreement, includes the so-called official commercial transactions between the two states. This includes almost all Czechoslovak industrial production, both ^{of} heavy and light industry. The majority of these deliveries are publically known, and only the quantities ~~and~~ involved are secret; they represent the greater part of Czechoslovak foreign trade, however. These deliveries include goods in all categories, from heavy industry to enameled ware and glassware. Deliveries of heavy industrial goods are placed in the overall agreement in such a way that they will be overshadowed in significance by the corresponding Soviet deliveries to Czechoslovakia. These include locomotives, steam and diesel rail cars, machine tools, trucks, cranes, metallurgical products, and complete equipment for sugar factories, refineries, etc. Much the greater part of these deliveries is in the second category, that of separate, direct deliveries, according to separate agreements.

In this category several entire factories, or rather their so-called special departments, work almost exclusively for the USSR. These special departments, which are under the direct management of Soviet technicians, were discussed in the separate report on the Soviet missions. This is particularly true of the basic heavy and war industry sector, where several factories are under the joint administration of the Czechoslovak Ministry of National Defense and the Soviets. This is true of the special sector of the Skoda Works in Plzen; of the enormous new branch factory in Doudlevoce near Plzen, which was planned as a special department; Zbrojovka Strakonice, and Brno; CKD-Stalingrad; Sokolovo; Dukla; Rudy Letov; Avia; Konev; Kladno; Explosia-Semtin; Dynamit-Nobel-Bratislava; Foldi; Trinec; Vitkovice; the new factories primarily in Slovakia; etc. The uranium mines in Jachymov are entirely under the control of the USSR, as are the Pelhrimov mines and the new ones in Slavkov. The above deliveries also include

SECRET**CONTROL U. S. OFFICIALS ONLY**

SECRET

CONTROL U. S. OFFICIALS ONLY

actual military goods, such as armor plate of special steel; tank engines, special heavy military trucks; new types of large, three-cylinder locomotives which Czechoslovakia has made according to Soviet models improved in Czechoslovakia; heavy artillery weapons; machine guns; antiaircraft weapons, (although in this case it is possible that only parts are made) large constructions for Soviet factories and the so-called "structures of Communism"; special machine tools, such as milling machines and lathes, made by the Wolmann national enterprise in Celakovice; special measuring instruments, made by Srb a Stys; air- and craft engines made by Walter, Avia, Rudy Letov (here also it is possible that only certain parts are manufactured); busses; mine equipment; etc. This type of production is very complicated and therefore is difficult to control. It involved assembling in one place the parts produced by a number of other factories. We know specifically of the procedure in several factories, such as the CKD-Stalingrad, Sokolovo, Dukla, CKD-Slany, Rudy Letov, Konev-Kladno, Poldi, Skoda-Plzen, Ringhoffer, etc.

25X1A

For example, in the CKD-Sokolovoan exception is made for the production of complete locomotives for the USSR, since for technical reasons these could not be built in two places. These locomotives are made with double-gauge wheels to accomodate different width tracks; this is an indication of the purpose to which they are to be but, in spite of the difficulty in the internal design of these locomotives. In addition the power output of the locomotives is too much for Czechoslovak lines. The locomotives are being made in series of 16 or 32 each. In the case of old, tested types of locomotives it used to take about two months to produce 16 of one type, using a full second and half a third shift. The new three-cylinder locomotives took almost six months to produce 32, and specialized workers had to be employed on the job. The final tests and adjustments took more than a month, since the piston tolerance was too small and caused too much friction. The new locomotives have three times the tractive force of a freight locomotive at maximum load, which is as 120 km/hour ; otherwise they can travel 160 km/hour.

In addition to locomotives CKD-Sokolovo makes steam and diesel rail cars for the USSR. From 16 to 32 are made at a time in the case of large ones, and 64 in the case of normal ones. These, too, are completely manufactured

SECRET

CONTROL U. S. OFFICIALS ONLY

SECRET

CONTROL U. S. OFFICIALS ONLY

in one place. Some of the efforts of this factory are put into serial production of tanks. Tank tracks and clutches ^[tank track links?] are made here, and, in the special department, parts are assembled. Trial runs of finished tanks are made by the Ministry of National Defense, and it should be pointed out that the special department operates under the direction of the Soviet technicians with the cooperation of the Czechoslovak army. Clutches ^[tank track links?] are produced in series of 124 units. The significance of the numbers produced in these series is not clear to us.

We can give similar detailed examples in other sectors of production, and can also give further details on the subjects already discussed. Since it is very difficult to give details while retaining some overall form in such a report, and since we cannot in all cases judge for ourselves the importance of various points, we suggest that if more information is desired it should be obtained in the form of answers to concrete questions, or could even be given orally.

Direct deliveries also include special production for military ^{purposes,} which is also sent to the USSR. Such examples are radio receivers and transmitting stations, both aircraft and field sets; telephone equipment and field telephones; and special parts for radar stations, on the production of which we have only partial information. Other production in this sector includes railroad cars for the Soviet rail system, primarily freight cars which can be adapted for military purposes.

The deliveries of goods from Czechoslovakia to the other People's Democracies consist primarily also of military goods, and are distributed according to directives from the USSR and their production is also controlled by Soviet technicians. It is impossible to be certain what production is for the USSR and what is re-distributed by the USSR, unless the specific goods are to be used in the place to which they are originally sent. A large number of deliveries of this type go through the Soviet Union, which apparently does this for strategic and political reasons, in order that the place of origin of the goods not be known and in order that the USSR itself have a hand in these transactions. Further, in a number of cases only partial deliveries are made, and these are supplemented, or the finished products are assembled, in the USSR or else in their final destination. In this connection it should be pointed out that current production of arms for the armies

- 22 -

SECRET

CONTROL U. S. OFFICIALS ONLY

SECRET

25X1A

CONTROL U. S. OFFICIALS ONLY

of the Soviet sphere are not only standardized according to Soviet models, but, as far as we know, are mostly delivered by the Soviet Union - even Czechoslovakia receives its arms in this fashion. This includes middle-sized machine guns, hand grenades, etc, the production of which in the USSR is very much simplified, and well organized, so that it would be unprofitable to produce these objects elsewhere. For example, Czechoslovakia has specialized in the production of light machine guns of a new, perfected type, and, in view of the good machine equipment of Czechoslovak factories, they have been reserved for precision and fine production of the more complicated items in the arms program. As a supplement to the military production program Czechoslovak supplies textiles, processed from imported raw materials, in addition to leather products such as shoes, belts, etc.

✓ In the other sectors of the economy Czechoslovakia supplies the People's Democracies with goods according to the plans of CEMA; this is done particularly in the area of basic heavy production for the industrial development of those countries, while some goods are supplied for current consumption. Goods are also supplied within the framework of bilateral trade agreements which are actually formal documents whose main purpose is propaganda, since they are in turn really parts of the CEMA plan. Deliveries of goods to Czechoslovakia are also made in the same way, and also according to both official and secret agreements. They include oil, raw materials, wood, etc. As has been said before, the deliveries of goods from the other People's Democracies do not equal even half of Czechoslovakia's exports of goods to them; in addition, these goods are of less importance to Czechoslovakia and, considering the value to Czechoslovakia of free foreign trade, a great economic loss to the country. Thus Czechoslovakia is today a creditor to the entire Soviet sphere, including the USSR, to the extent of billions. ✓ At the same time the Soviet Union, which in the long-term common plan, both of the USSR and of CEMA, is the guarantor for unfulfilled deliveries, while the losses in trade at present are charged to Czechoslovakia.

Foreign trade within the Soviet sphere is conducted on the basis of the ruble, and thus through the Soviets' clearing banks. In addition Czechoslovakia may make considerable claims on the gold pool which is set aside for purchases in the West, as well as on the foreign exchange, part of which is in Paris in the Banque des Pays de l'Europe Centrale. Here, too, Czechoslovakia is at a considerable dis-

SECRET**CONTROL U. S. OFFICIALS ONLY**

SECRET**CONTROL U. S. OFFICIALS ONLY**

advantage, and receives only deposits from its share in this fund. We have
already written about this elsewhere.

25X1A

As is well known, Czechoslovakia is delivering more and more products to China; these include arms and equipment for the army as well as mining and factory equipment, many technicians sent by Czechoslovak factories. At the same time we are sending various ^{arms} parts and equipment to North Korea and to Vietnam.

In agreement with the USSR, Czechoslovakia has sent to Israel antiquated war material, primarily of German origin; these materials have also been sent to the Arab states. There were political considerations, of course, but the main interest was in obtaining foreign exchange. In the same way in 1949 and 1950 arms were flown to various countries in South America. These arms included machine guns, and it is not known what their final destination was.

SECRET**CONTROL U. S. OFFICIALS ONLY**

SECRET

25X1A.

In order that Czechoslovakia may fulfill the demands made on her within the frame work of the total Soviet program, it is necessary to fulfill several fundamental conditions. (It is necessary to consider that Czechoslovakia does not receive counter deliveries which even approximate the amount of Czechoslovak exports. This holds true both for the USSR and the ^{other} states of the Soviet orbit. Czechoslovakia does not even receive sufficient raw materials which are the basis for fulfilling the entire plan and program).

- a. The adaptation ^(of foreign trade) (first of all ^{of that with the} to the West) to the interests and needs of the entire plan.
- b. The search for new, domestic sources of raw materials.
- c. Progressive increase of domestic, basic industrial production.
- d. Increased power output through the full utilization of natural sources and possibilities aimed at widest utilization.

We do not intend to speak about the legal foreign trade carried on within the scope of bilateral agreements here, ^{even though,} Under these clauses, Czechoslovakia is enabled to obtain raw materials and semifinished goods which fall within that category of goods upon which the US has placed an embargo. Considering the embargo and the loss of valuable exchange, acquired by Czechoslovakia up to now through lively commerce with the West, Czechoslovakia understandably began to try hard to achieve economic independence from the West. This effort has been camouflaged by saying that the West will probably undergo an economic crisis. Czechoslovak industry tries hard to substitute for raw materials which have to be imported from the West, even if the substitution implies inferior quality and very high costs of production. Czechoslovakia tries to produce the most varied industrial products (sometimes by copying Western patents) needed by heavy industry and which have been imported from the West up to now. Finally, Czechoslovakia tries to obtain at least a minimum quantity of raw materials from the West, necessary in order to prevent industry from stopping, through some illegal way, circumventing the American embargo.

It would be a mistake to suppose that these seemingly unrealizable tasks would result in overwhelming difficulties for Czechoslovak industry which would have to stop, sooner or later, because of the loss of imports of Western raw materials.

SECRET

CONTROL U.S. OFFICIALS ONLY

SECRET CONTROL U. S. OFFICIALS

25X1A

Although these difficulties often caused and continue to cause nonfulfillment of plans in one or another branch of industry, nevertheless these problems are always solved basically. As far as the impenetrable embargo on imports is concerned, even now Czechoslovakia purchases products and raw materials in the West not only for itself but, for tactical reasons, it uses its name to make certain purchases for the USSR.

In certain spheres, Czechoslovakia has reached today a considerable independence from the West. For example, it produces many types of ball and roller bearings; in certain instances Swedish balls are used in Czech bearings. At present, Czechoslovakia also produces special measuring instruments, up to now partially imported from Switzerland. As far as raw materials are concerned, we know from personal experience that, although by the end of 1949 Czechoslovakia made desperate efforts to buy large quantities of lead, today interest in buying this raw material in the West has declined, so that it is necessary to suppose that Czechoslovakia already has an Eastern source. In this connection, it is necessary to say, that according to the communication of a general manager of an import company, since the spring of 1951 large shipments of various raw materials have been coming in from China.

~~From the beginning of the summer of 1951, METALIMEX, the chief firm interested itself in the import of raw materials.~~

As far as the copying of foreign patents is concerned, although against international rules, Czechoslovakia has imitated the USSR. Foreign patents are now copied, ^{as} and they have been copied in the USSR for a long time. This activity has accelerated industrial processes. Very often, experts examine foreign products which may be obtained freely on the Western market and hope to find parts which will help in the production of entirely ^{different} ~~new~~ products. It often seems ridiculous when Eastern delegates purchase, seemingly for their own use, very varied and often luxury items (for instance, television sets when television broadcasting does not exist in Czechoslovakia). These delegates purchase on the basis of centralized orders.

By copying various new parts (for example radio tubes), industry can accelerate the production of means of telecommunication (radar, etc) and through the chemical analysis of ~~z~~ metals, alloys, and other materials it can improve the quality of products.

SECRET

CONTROL U. S. OFFICIALS ONLY

SECRET CONTROL U. S. OFFICIALS ONLY

For example, it often happens at the present time that the Czechoslovak enterprise, Tesla, produces radio sets which equal qualitatively the best in Europe, while as far as innovations and improvements are concerned, they are absolutely the best. Tesla uses mostly Philips radio sets for models.

This procedure is also applied in other less important cases when Czechoslovak production is improved ^{according to} foreign patents or according to production and installation processes taken over. This is done, for example, in the production of refrigerators, where the Czechoslovak delegation, acting upon orders, brought various types of foreign refrigerators; ^{the same thing was done in the case of} vacuum cleaners (Swedish manufacture) and other items. Jiri, himself, witnessed the taking over of the original French Rocquefort cheese, whose mould was artificially ~~adapted~~ adapted to mould production in Czechoslovakia and, today, Czechoslovak Rocquefort is successfully exported abroad and qualitatively it is difficult to tell from the French variety. (In 1948, after a sudden extinction of the mould, Czechoslovakia tried hard to obtain new cultures in France. The original Rocquefort was brought to Prague ^{at that time} personally by the present chairman of the Czechoslovak National Assembly, Dr

O. John.)

^{Since the beginning of} From the summer of 1951, METALIMEX, the chief firm interested ~~in~~ in the import of raw materials, (Prague II. Stepanka, director Axler, deputies ^{Enger and his imported} Nemeš, Mizera), ^{Chiefly these goods:} electrolytic copper, lead, ~~castings~~, scrap iron, molybdenum, tungsten, and various other scarce metals and their alloys.

The enterprise INVESTA (part of KOVO); ^{Enger and} director ~~ing~~ Sirucek, director Barak) interested itself chiefly in the import of special machines from abroad. It is necessary to observe here that Czechoslovakia was ordered to purchase all the machine tools possible for the USSR and that this was carried out mostly in Western Germany, where Czechoslovakia obtained machine tools in exchange for stockings. INVESTA also interested itself in rolled materials (see negotiations with the Montana firm in Linz), ^{in exchange for} and had coke, ^{which was} arrangements, for example, of vital importance for Austria. To a large extent, INVESTA acted in compliance with Moscow's orders which it received from, among others, Soucek, the deputy Minister of Foreign Trade.

-27-

SECRET

CONTROL U. S. OFFICIALS ONLY

SECRET

CONTROL U. S. OFFICIALS ONLY

The former deputy of the director of INVESTA, Mizera, played an important role in Berlin, as ~~it~~ will be shown later.

The enterprise Kovo, Bratislava. Director: Snabb^{l.} Among other things, the enterprise was active in the purchase of industrial diamonds. Even now, these are legally imported from Switzerland, and illegally from other places, such as Holland, South America, and perhaps from Israel.

KOVO, Prague, was active in ball bearings which it obtained mostly in Western Germany. Of late, attempts have been made to purchase Japanese bearings, but at the beginning of the summer of 1951, KOVO declared that it had obtained guaranteed, steady imports and deliveries from Szezecin^(Stettin) and elsewhere, so that there is no risk involved. These are merely those firms with which we had established contact; it is certain that the extent of this illegal trade continues to be huge.

Essentially, it appears that there existed or exist 3 main ^{centers} ~~branches~~ for this business: Vienna, Berlin, and Zurich. It ~~appears~~ appears, that of these 3 places, the greatest cooperation between the USSR and Czechoslovakia took place in Berlin, where Czechoslovakia delivered trucks with textiles directly for such items as steel, ball bearings, and machines for ^{the} USSR. In Austria, as far as we know, there exists a limited cooperation between USIA and Czechoslovakia. Czechoslovakia, however, progresses there independently, just ⁱⁿ ~~as~~ Switzerland. ~~done~~. In exchange, Czechoslovakia has to offer such items as coke, coal, sugar, textiles, etc. This is one of the reasons why, in spite of difficulties from the Americans ~~side~~ and bureaucracy on the part of Czechoslovakia, transactions are being realized. The goods delivered have a higher price than gold. Mizera, who was, for a rather extended period of time, the special representative of KOVO in Berlin carried out several coal transactions running into the billions, according to ^{his} ~~the~~ chief.

We may, ^{if there is any interest} analyze in detail some illegal transactions carried out up to the summer of 1951, including persons and firms both in Czechoslovakia and abroad who were interested in this business. (Switzerland, Italy, France, and Germany are concerned here primarily). In this way Czechoslovakia tried to secure for herself a sufficient and steady flow of basic raw materials. With the tightening of export controls in Western countries (especially after scandals came to light in connection with exports of tin and nickel from Belgium ^{out of} ~~relative to~~ deliveries which were made within the framework of the Marshall Plan -

SECRET

SECRET

CONTROL U. S. OFFICIALS ONLY

in the year 1949/50) Czechoslovakia's position was still ^{more} unfavorable, in spite of the method chosen (which was contrary to the entire political concept: (import of some basic raw materials from Yugoslavia) by way of Switzerland, without official knowledge of Czechoslovakia.)

The import of these basic raw materials by this method (foreign black markets) continues in a large volume, in spite of all sanctions, but it is a comparatively uncertain source about which one never knows whether it will ~~not~~ be interrupted, at least temporarily; and ^{this} ~~it~~ may cause a stoppage of industrial production at a critical moment because of shortages of some specific raw material.

Recently Czechoslovakia has started to pay more attention to domestic sources of raw materials and to ^{its own} natural resources. ^{Although Czechoslovakia has considerable} ~~this~~ development is quite ^{mineral wealth, its} complicated and in former times mining was often abandoned (or it was not even begun) because it was unprofitable for an entrepreneur, since the cost of production was much higher than the price for which the material could be obtained on the international market. Today, the matter of cost is not of primary importance, the main consideration being the material's economic importance and so old abandoned mines are ~~re~~opened once more and new diggings are started everywhere, where ^{ever} there is an indication of material being present.

Thus, the large scale mining of silver, lead, and other minerals was resumed in Příbram. ^{near} New mines are being opened ~~in~~ ^{near} Rokycany and Karlovy Vary (among others, the new uranium mines in Slavkov) and a number of other places in southern Bohemia (at Krumlov, Jindrichuv Hradec, etc.) The ^{chief} center of these new mines is the Czechomoravian ^{upland region} ~~Plateau and this~~ ^{particularly} in the southern section near Mrakotin and in the center of ^{this} the belt, near Skuteč. In southern Moravia, near the Austrian border, in the neighborhood of Straznice both on the Austrian and Moravian side, a long belt of oil wells has been started, in cooperation with the Soviet zone of Austria. This belt extends as far as Slovakia to the neighborhood of Gbely, the location of the only oil wells in the former Czechoslovak Republic. In the central Slovakian mountain range a great many new diggings have been started in a search for the most varied ores. Old diggings have been renewed in spite of the fact that mining in them had been entirely abandoned or greatly reduced.

SECRET

CONTROL U. S. OFFICIALS ONLY

SECRET**CONTROL U. S. OFFICIALS ONLY**

Czechoslovakia is using coal at a continually faster rate as an exchange item in its foreign trade (for example, Austria) and especially in the black market. Increased coal mining is to enable Czechoslovakia to produce more electric power which Czechoslovakia wants to use as a medium of exchange in its foreign trade especially Austria and Bavaria. ^{and} (As a political ~~matter~~ ^{measure} of cooperation with Poland)

Two sources are used in the production of electric power: water and inferior coal and coal scrap. The construction of a network of hydroelectric plants is being started, to fill in the gap with plants using ^{water} coal scrap. The goal is to secure for domestic use a steady supply of electric power in all sectors without running the risk of even temporary interruptions or weakening of the current because of outside (natural) reasons. For example, the water level is an important factor which has to be taken into consideration. For these reasons a security measure was initiated within the domestic framework. ^{This is the} ~~The~~ so-called east-west ^{main} power line whose task it is to complement the Prague and central Bohemian network in order to preclude any possibility of interruption of power delivery was built. This line is especially important now, in time of increased consumption, caused by the establishment of round-the clock working time in all large industrial enterprises. This ^{main} line diverts surplus power from the Slovak and Moravian network. The line can be seen at a distance of approximately 3 kilometers from Libeznice (north of Prague) where it cuts across the main highway at Melnik. As a result of setting up this line, the entire country has a continuous and uniform supply of electric power, and in case of possible breakdown or loss of output on the part of some power plants in economically and industrially important regions, no serious economic disruption or ^{even} slight paralysis will result. The lowered power is immediately compensated for from the line and a temporary stoppage of power production in one or more plants will be unnoticeable.

SECRET**CONTROL U. S. OFFICIALS ONLY**

SECRET CONTROL U. S. OFFICIALS ONLY

This internal plan is, in operation, directly dependent on the long-term plan for the export of electric power, primarily to Lower Austria and Bavaria. This plan includes the construction of two main electric power plants: one in northern Moravia and one in Southern Bohemia. The one in northern Moravia is to be on the border between Moravia and Poland, and is to be the largest power plant using waste coal and low-quality Polish coal. It is to have double connections: one with Poland and one with the main power line, so that power can be exported to Austria. The south Bohemian plant is to be hydroelectric and is to supply Bavaria over the main power line. The political intention of making Germany and Austria partially dependent on deliveries of electric power from Czechoslovakia is apparent here. The plans have already been worked out and presented at a meeting of the power section of the Economic Council for Europe in Geneva. In principle they have been included in the overall European program. The realization of these plans depends on Czechoslovakia's obtaining dollar credits for building the plants. The negotiations in Geneva of last year have not yet reached final agreement. We obtained our information on this subject both from Fousek and from Engr Frantisek Homola. The latter was Deputy General Manager of the Czechoslovak Power Plants, and was coauthor of the plan for export ^{line} and for the main power. He is a personal friend of Jiri. The Ministry of Foreign Affairs also negotiated concerning his dealings in Geneva. Jiri brought about Homola's meeting with Sekaninova, Augenthaler, and Tauber, and was on the program of the Czechoslovak delegation for the meeting of the Economic Council for Europe.

In conclusion it is interesting to point out that the entire plan of electrification is based on the German plan for an electric power axis to go from Silesia, across the Protectorate of Bohemia and Moravia, to Bavaria. The construction of this line, which was begun during the war, was interrupted by the approach of the Soviet armies.

Even transportation is being reorganized both to serve military needs and to serve the expansion of war industry and to improve connections with the East. Now, for example, a large, strategic line is being built from East to West. This line is to serve primarily military needs, and is avoiding large cities. It can be seen south of Sedlcany, ~~where~~ ^{ere} near which it crosses the Vltava.

SECRET CONTROL U. S. OFFICIALS ONLY

SECRET CONTROL U. S. OFFICIALS ONLY

Similarly, a military bridge is being built south of Prague, below Barandov. The above-mentioned line is to lead from Kosice to western Bohemia, probably to the region of Cisarsky Les, near Marianske Lazne. It is interesting that several new factories, such as ^{the} ~~the~~ factory near Zdirec ^{ec} ~~fundamentalism~~ in the Czech-Moravian upland region, ~~xx~~ are being built near that line. At the same time the production of railroad freight cars with two gauges is being sharply increased. We know this from Oto's friend Kacir, who was employed in the car exporting section of Tatra-Ringhoffer. Whereas highways in Slovakia are being built, and maintained in good repair, this is not true of Bohemia, apparently because bad highways are considered advantageous for defensive action of the Czechoslovak army. In other words, in view of the rising degree of motorization of the western armies bad highways are considered to be less of a disadvantage to the East than to the West. In the production of light and heavy trucks, the Czechoslovak factories are now producing passenger cars only as a secondary matter. The main effort is in equipping the army, the police, and the armies of the other People's Democracies with trucks. According to information from Oto's cousin, who is employed in the Motokov vehicle export enterprise, Czechoslovakia and the USSR, which are the only large producers of vehicles ⁱⁿ ~~among~~ the Soviet bloc, are trying to standardize their production of vehicles, in order to simplify production and to reduce the number of spare parts necessary.

The production of synthetic gasoline now includes aviation gasoline, which has, however, an octaine number of only 74. Enormous strategic stores of gasoline are being built up, and it appears that underground storage is being used; some such facilities existed even before Munich, in the Czech-Moravian upland region, for example. This last information comes from Colonel Gerensky.

Even the present-day orientation of the construction industry, for example, is directed to building military installations and on the planned expansion of industry, according to recently changed plans. Civilian construction is left with only a small, formal allotment, and the construction of new living quarters for workers in connection with newly established industrial enterprises is counted as civilian production. While new factories are being built all over Czechoslovakia, generally this construction consists only of enlarging already existing factories, rather than of building completely new ones. Examples of this expansion

SECRET

CONTROL U. S. OFFICE

sion are the Skoda Works in Plzen, Rudy Letov, Avia-Letnany, etc. We know of only a small number of new enterprises, which we mention as an example of the expansion of heavy and war industry. These are primarily the new construction in Ostrava, the so-called small Donbas, consisting of an expansion of the Vitkovice and Trinec Ironworks, the new Zdirec plants, and the new Gottwald Metallurgical plants in Kuncice. Slovakia is separate in this matter, since a completely new industrialization is being carried out there. The original plan has been kept to a considerable extent there, since it is in a better location strategically and lies next to the Soviet Union. The original plan has been changed in that, instead of existing industry being transferred there, so that the principal heavy industry of the country would be located in Slovakia, the present plan ^{the} calls for the expansion of already existing production of Bohemia and Moravia, even if the capacity of some enterprises ~~for~~ planned for Slovakia is to surpass that of the Czech Provinces. The new enterprises in Slovakia include the heavy machine building plants in Svaty Martin, which are an independent branch of the CKD; and whose specialists have directed the planning of the plants, requiring a division of production tasks; The branch plant of the Skoda Works in Trenčianske Teplice, which is being built under the same conditions, although the construction isn't completed yet; The Kladno Metallurgical Plants' (Poldi's) branch in Podbrezova, where the ironworks are being expanded; and the HUKO [un-identified] plants in Kosice, which the Moravska Ostrava enterprises are involved in. Entirely new plants, whose internal connections we do not know, are being built near Ruzomberok, and ^{are} ~~to~~ to be among the largest Slovak heavy industrial combines.

This report, in spite of its considerable size, is to be considered as only a partial survey of the actual present economic situation in Czechoslovakia, and of the position of Czechoslovakia in the overall Soviet program. We have presented ^{detailed} only ~~partial~~ examples, which we know either directly or from completely reliable and informed sources. As we have already emphasized, we cannot go into detail in a large number of matters, since we are not technicians. This is true even of areas where our information is more detailed, since it would be necessary to make our report directly, orally, to a technician.

This report is to give a survey of the industrial potential ^{of Czechoslovakia and its} and possibilities for expansion. This has been clearly shown, we believe, by the increase of pro-

SECRET

CONTROL U. S. OFFICE

SECRET CONTROL U. S. OFFICIALS

duction which has occurred since 1945, when compared with the prewar capacity of Czechoslovakia. And it is our opinion that it is necessary to take into consideration the changed political situation in Czechoslovakia, which is the main source of this increase in production; i.e., the superiority of the so-called socialist or rather state planning of ~~the~~ the economy and of industry, as has been explained in detail. This explains why Czechoslovakia has achieved such a leading position in the overall Soviet program, and why the economic significance of Czechoslovakia means that Czechoslovakia is also politically significant to the USSR.

According to a sober estimate, based on factual information, Czechoslovakia is at present on an industrial level equivalent to that of a country of 60 to 70 million inhabitants, although Czechoslovakia has only 12,000,000 inhabitants. In some sectors of supplementary industry and of consumer industry which has also been placed at the service of the overall program, the production capacity of Czechoslovakia is even much greater. This is true of the leatherworking industry, the shoe industry, textiles, and of several branches of ~~the~~ basic heavy industry.

In previous parts of this analysis we have discussed the possibilities of a further increase of the production capacity of the country, particularly in basic heavy industry, that sector which just at present is being expanded so feverishly. This possibility consists of a new, enormous recruitment drive to bring new manpower into industry. This program is being carried out at a time when the living standard is falling and when the ^ysuperiorities of the workers, except for those in metallurgy and mining, is less than it has been. This means that this program ^{is} ~~will be~~ most unpopular, both among persons recently recruited for industry and among the workers. In spite of this it may not be supposed that the unpopularity of these measures will have profound results on the internal situation; quite the contrary, in spite of all of this the workers will be recruited and production automatically increased in this mechanical way: production capacity will be increased by increasing the number of workers and of work hours.

-34-
SECRET

SECRET

CONTROL U. S. OFFICIALS ONLY

Therefore, according to our opinion, it is correct to assume that production in Czechoslovakia in the near future will increase further, even if the percent increase will not keep pace with the increased costs of production. This, however, as we have pointed out before, is not a significant factor.

This report may perhaps help to explain the significance of Czechoslovakia for the Soviet Union, and for the overall Soviet program. It should be clear from the foregoing that the USSR is counting on a politically safe Czechoslovakia as a mainstay, both in the period of preparations and in the period of actual conflict. This complete incorporation of Czechoslovakia into the Soviet program means that disorder in Czechoslovakia would mean a blow at the Soviet Union, and a blow in a very sensitive spot. One cannot count on an internal blow in Czechoslovakia, however; this must come from without, consisting of an economic blockade of Czechoslovakia, isolating that country, and cutting it off from its usual sources of raw materials and other necessary goods. This is shown by the constantly increasing political control in Czechoslovakia, which appears in the ever more frequent and more sudden changes, and the centralization of the party and of the state power, which have by now become almost one. All the changes and events of the recent period in Czechoslovakia should be viewed from this standpoint. And this is another confirmation of the importance which the USSR attaches to Czechoslovakia in its main intention, which is to equalize the production capacity of the West and the East, so that within five years the USSR may achieve the steel capacity of present-day America..

-35-

SECRET

CONTROL U. S. OFFICIALS ONLY